

SUBJECT: Establishing adjustments and payments to be paid by TRS

COMMITTEE: Pensions, Investments & Financial Services — committee substitute recommended

VOTE: 8 ayes — Capriglione, Lambert, Bhojani, Bryant, Frazier, Leo-Wilson, Plesa, VanDeaver

0 nays

1 absent — Vo

SENATE VOTE: On final passage, (March 29, 2023) — 31 - 0

WITNESSES: (*On House companion bill, HB 600*)

For — Chris Jones, Combined Law Enforcement Associations of Texas; Monty Exter, The Association of Texas Professional Educators; Timothy Lee, Texas Retired Teachers Association (*Registered, but did not testify*; Will Holleman, Raise Your Hand Texas; Emily Amps, Texas AFL-CIO; Beaman Floyd, Texas Association of School Administrators; Dax Gonzalez, Texas Association of School Boards; Andrea Chevalier, Texas Council of Administrators of Special Education; Mark Terry, Texas Elementary Principals and Supervisors Association)

Against — None

On — Phyllis Ruffin, Rita Runnels, Texas AFT; Eli Melendrez, Texas American Federation of Teachers; Ann Fickel, Texas Classroom Teachers Association; Brian Guthrie, TRS; Portia Bosse, Texas State Teachers Association (*Registered, but did not testify*; Amy Cardona, Pension Review Board)

BACKGROUND: Concerns have been raised that it has been too long since the last cost-of-living adjustment for retired teachers, which has resulted in the annuities for retired teachers and their beneficiaries losing substantial purchasing

power.

DIGEST: CSSB 10 would establish certain adjustments and payments to be paid by the Teacher Retirement System of Texas (TRS).

Gain sharing cost-of-living adjustment. The bill, for each fiscal year that began on or after September 1, 2028, would require TRS to make a cost-of-living adjustment payable to eligible annuitants who received a retirement or death benefit annuity payment only if the TRS average rate of return on the investment of TRS assets during the preceding five fiscal years was equal to or exceeded seven percent.

The amount of the cost-of-living adjustment would be an amount equal to the annuitant's monthly annuity payment for the month the adjustment was effective multiplied by a certain percentage rate based on the TRS average rate of return on the investment of TRS assets during the preceding five fiscal years. The amount of the adjustment could not exceed 2 percent of an annuitant's monthly annuity payment.

A person would be eligible to receive a cost-of-living adjustment if the person was an annuitant or a certain beneficiary that was eligible to receive certain annuity payments became eligible to receive such an annuity payment at least three years before the fiscal year in which the adjustment was made, and was alive on the effective date of the adjustment.

A cost-of-living adjustment would not apply to certain payments relating to retirees, disability retirees, active member survivor beneficiaries, retiree survivor beneficiaries, and deferred retirement option plan participants.

Cost-of-living adjustment: January 2024. The bill would require TRS to make an additional one-time cost-of-living adjustment payable to annuitants receiving a monthly death or retirement benefit annuity. To be eligible for the adjustment, a person would be required to be eligible to receive certain annuity payments.

A retiree annuitant or an optional service or disability retirement payment plan beneficiary annuitant would be eligible for the adjustment if the annuitant was alive on the adjustment's effective date and the effective date of the retirement was on or before December 31, 2020. An annuitant who was a beneficiary of a deceased TRS member would be eligible for the adjustment if the annuitant was alive on the adjustment's effective date and the date of death of the TRS member occurred on or before December 31, 2020. An alternate payee annuitant would be eligible for the adjustment only if the effective date of the election to receive the annuity payment was on or before December 31, 2020.

A one-time cost-of-living adjustment would not apply to certain payments relating to retirees, disability retirees, active member survivor beneficiaries, retiree survivor beneficiaries, and deferred retirement option plan participants.

The bill would require the one-time cost-of-living adjustment to be made beginning with an annuity payable for the month of January 2024.

The amount of the adjustment would be calculated by multiplying the monthly benefit amount to the adjustment by a certain percentage rate based on a retiree's retirement date, a TRS member's death date, or an alternate payee's election date.

The TRS board of trustees would determine the eligibility for and the amount of any adjustment in monthly annuities.

One-time supplemental payment. The bill would require TRS to make a one-time \$5,000 supplemental payment of a retirement or death benefit. The supplemental payment would be payable no later than February 2024 and, as practicable, on a date or dates that coincided with the regular annuity payment payable to each eligible annuitant.

The supplemental payment would be payable without regard to any forfeiture of benefits. TRS would make applicable tax withholding and other legally required deductions before disbursing the supplemental

payment. Any supplemental payment would be in addition to and not in lieu of the regular monthly annuity payment to which the eligible annuitant was otherwise entitled.

Annuitants who were at least 70 years old and eligible to receive certain annuities would be eligible for the supplemental payment.

The supplemental payment would be in addition to the guaranteed number of payments and could not be counted as one of the guaranteed monthly payments. The supplemental payment would not apply to certain payments relating to retirees, disability retirees, active member survivor beneficiaries, retiree survivor beneficiaries, and deferred retirement option plan participants.

The bill would require the TRS board of trustees to determine the eligibility for and the amount and timing of a supplemental payment and the manner in which the payment was made.

TRS would be required to make the one-time supplemental payment only if the board of trustees found that the Legislature appropriated money to TRS in an amount sufficient to provide the supplemental payment. The amount appropriated by the Legislature would be in addition to the amount the state was required to contribute to TRS.

If the TRS board of trustees determined that the appropriation provided by the Legislature was different from the amount required to issue the supplemental payment, the comptroller would make adjustments in the teacher retirement fund and the general revenue fund so that the total transfers equaled the total amount of the funds required for the supplemental payment. This transfer of funds would be in addition to and separate from the amount the state was required to contribute to TRS.

Actuarial soundness for benefit enhancements. The bill would establish that TRS was actuarially sound if the amount of contributions and actuarially determined payments to TRS were sufficient to cover the normal cost of the system and to amortize the unfunded actuarial accrued

liability of TRS within 30 years.

Actuarially determined payments. Each fiscal year the state would be required to make an actuarially determined payment in the amount necessary to amortize the system's unfunded actuarial liabilities by the fiscal year ending August 31, 2054. Before each regular legislative session, TRS would provide the Legislative Budget Board (LBB) with the amount necessary to make the required actuarially determined payment. The LBB director would include that payment in the general appropriations bill prepared for introduction at each regular legislative session. These provisions would expire September 1, 2055.

Rate of member contributions and collection of state contributions.

The bill would increase the rates of state and active member contributions to TRS from 8.25 to 9 percent. The bill would revise the before and on or after dates related to such rates from September 1, 2023, to January 1, 2024.

The bill would take effect January 1, 2024, only if the constitutional amendment proposed by the 88th Legislature was approved by the voters. The bill would not take effect if that proposed amendment was not approved by the voters.

NOTES:

According to the Legislative Budget Board, the cost to the state of the bill for the biennium would be \$3,450,000,000.

CSSB 10 is the companion bill for CSHB 600, which is the enabling legislation for CSHJR 2. CSHJR 2 is on the Constitutional Amendments Calendar for second reading consideration today.